INTERPROVINCIAL PIPE LINE LIMITED
ANNUAL REPORT 1975

Interprovincial Pipe Line Limited

Annual Report 1975

(Incorporated by Special Act of the Parliament of Canada, April 30, 1949 and continued by Letters Patent August 1, 1973)

Directors

LORENZ P. BLASER
Executive Vice-President
Gulf Oil Canada Limited, Toronto

C. WILLIAM DANIEL
President & Director
Shell Canada Limited, Toronto

J. WARREN FLANAGAN
Senior Vice-President & Director
Imperial Oil Limited, Toronto

JOHN H. HAMLIN
Senior Vice-President & Director
Imperial Oil Limited, Toronto

ROBERT K. HEULE
Vice-President & General Manager
Interprovincial Pipe Line Limited, Edmonton

A. HAZLETT LEMMON
Chairman of the Board
The Canada Life Assurance Company, Toronto

*JAMES G. LIVINGSTONE
Executive Vice-President & Director
Imperial Oil Limited, Toronto

C. EDWARD MEDLAND
President & Director
Wood Gundy Limited, Toronto

*W. HAROLD REA
Chairman of the Board
Great Canadian Oil Sands Limited, Toronto

DAVID G. WALDON
President
Interprovincial Pipe Line Limited, Toronto

*GORDON D. deS. WOTHERSPOON
Chairman of the Board
Eaton Financial Services Limited, Toronto

*Members of Audit Committee

Officers

DAVID G. WALDON
President

JAMES G. LIVINGSTONE
Vice-President

ROBERT K. HEULE
Vice-President & General Manager

JOHN BLIGHT
Vice-President & Treasurer

E. GORDON SHEASBY
General Counsel & Secretary

FREDERICK B. NEWTON
Assistant Treasurer

PHILIP J. ROBERTSON
Assistant Secretary

Annual Meeting

2:30 p.m. Wednesday, April 14, 1976,
Confederation Room, Royal York Hotel,
100 Front Street West, Toronto.

The Notice of Meeting, Information Circular and form of Proxy are being mailed with this report to all shareholders of record on March 22, 1976.

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Highlights

Financial

	1975	1974	Percentage Increase (Decrease)
Transportation revenue	$194,715,000	$192,944,000	1%
Other income	$ 2,300,000	$ 2,074,000	
Expenses, excluding taxes	$102,203,000	$107,648,000	(5%)
Income and other taxes	$ 55,911,000	$ 51,785,000	8%
Earnings	$ 38,901,000	$ 35,585,000	9%
per share	$1.52	$1.39	
Dividends	$ 30,688,000	$ 30,688,000	
per share	$1.20	$1.20	
Capital expenditures	$151,202,000	$ 31,192,000	

Statistical

	1975	1974	Percentage Increase (Decrease)
Deliveries (barrels per day)			
By Quarters			
First	1,165,531	1,339,580	
Second	1,063,050	1,330,697	
Third	1,207,079	1,275,980	
Fourth	1,204,194	1,283,014	
Yearly average	1,160,198	1,307,077	(11%)
Highest month	1,289,107	1,404,957	
Lowest month	956,926	1,216,428	
Barrel miles (millions)	581,850	668,864	(13%)
Barrels delivered	423,472,000	477,083,000	
Number of employees—December 31	755	751	

Directors' Report to Shareholders:

Throughput in 1975 in terms of both total barrels delivered and "barrel miles" was less than in 1974. Transportation revenue was $1.8 million higher, however, due to the tariff increases instituted by Lakehead on September 1, 1974 and by both Interprovincial and Lakehead effective April 1, 1975. This additional revenue, combined with a $4 million reduction in power and fuel costs, lower maintenance requirements and oil losses, resulted in a 9% recovery in earnings to $1.52 per share.

The reduction in power and fuel costs was made possible by lower and more even pumping requirements. The amount is particularly gratifying, however, in the light of substantially increased unit costs. Virtually all of the electric utilities from whom power is purchased increased their rates in 1975 by 10% to 20%.

As shown in the table on page 7, the reduction in throughput was largely in shipments to the United States. The restriction on exports of Canadian oil to the U.S. continued throughout the year at an allowable level of 800,000 b/d until the end of June and at 750,000 b/d thereafter. Of these quantities, roughly 65% was licensed for delivery to refineries served by Interprovincial/Lakehead, with the balance going to refineries in the northwestern United States served by other pipe line systems. The U.S. refineries took delivery of their entire licensed quantities during the second half of the year but not during the first half.

In its report entitled "Canadian Oil Supply and Requirements" released in November, the National Energy Board recommended continued exports to the United States but at a reduced rate. Based on a ten-year forecast of supply and estimated Canadian demand the Board found that the exportable surplus of Canadian crude oil would disappear in five years from January 1, 1976—a year earlier than forecast in their 1974 report. As a consequence the Board recommended and the Canadian Government concurred that, commencing January 1, 1976, the allowable level of exports should be reduced to 510,000 b/d until our extension to Montreal is in operation. As soon as Canadian oil reaches Montreal, the 510,000 b/d is to be reduced stepwise at the rate of one-half barrel for each barrel delivered in Montreal. This means that when the 250,000 b/d specified by the Government for Montreal is reached, the allowable level of exports will be reduced by 125,000 b/d to 385,000 b/d.

The report further recommends that, based on the current estimate of Canadian demand and in the absence of major discoveries, commencing in January 1977, the allowable level of exports should be further reduced to 252,000 b/d.

As regards the Montreal Extension, the agreed to Deficiency Agreement was officially entered into with the Federal Government in April and the necessary Certificate of Public Convenience and Necessity was issued by the National Energy Board on May 21. With receipt of the Certificate, right-of-way work was immediately accelerated and as detailed under "Construction", work on the 520-mile 30-inch extension from Sarnia commenced in September using seven main line construction spreads. For the most part the work has gone well but due largely to extremely wet weather conditions in eastern Ontario and Quebec in the fall, the eastern three spreads fell behind schedule and it was not possible to "weld out" before freeze up, as hoped. It is now estimated that the line will be in operation in May 1976.

One of 35,000 field welds on Montreal Extension.

Because of the more costly winter construction, and the fact that the main line is taking longer than estimated to construct, the capital cost of the line with five pumping stations is currently estimated at $200 million. This estimate may be on the low side however.

Obtaining the right-of-way for this extension involved negotiations with some 2,200 landowners, exclusive of the 52 miles located on Ontario Hydro and Hydro Quebec rights-of-way. Most of the easements were obtained by negotiations but due partially to time restrictions, expropriation proceedings had to be instigated in more instances than we would have liked. There are presently 150 cases yet to be settled either by further negotiation or, if necessary, by the courts. In addition, permits or agreements had to be obtained from 95 municipalities or agencies in respect of the 4,000 roads, railroads, powerlines and other pipe lines crossed in the 520 miles.

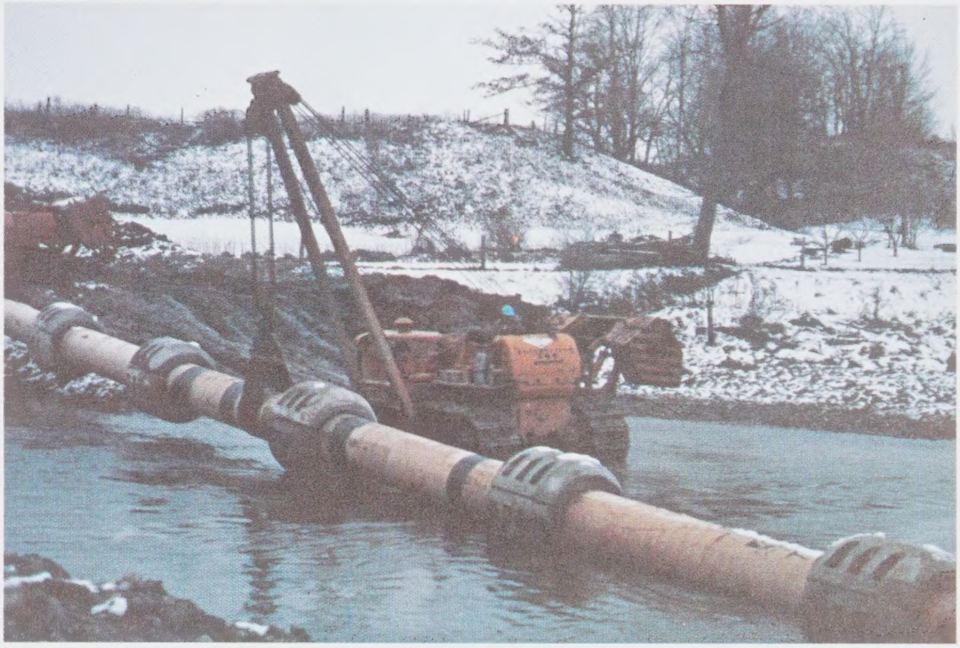
The Montreal market is of considerable significance to the company. How much the extension will contribute to earnings, however, is dependent on actual throughput and the tariff.

In our submission to the N.E.B. regarding the Hearing the Board has called to determine whether the tolls charged by Interprovincial in Canada are just and reasonable, we proposed a tariff to Montreal (additive from Sarnia) of 52¢ per barrel. This results in a rate from Edmonton to Montreal of $1.07 per barrel. Our submission was filed on December 8 but no date has as yet been set for the Hearing.

Having less than 500 employees in Canada, except as to dividends, the company believes it is not subject to the Anti-Inflation Act Regulations. We have every intention of complying with the spirit of the

Regulations however. Virtually all companies listed on Canadian stock exchanges are subject to the dividend restrictions.

The company continues as an active participant in Beaufort-Delta Oil Project Limited. The purpose of the company, which has established offices in Calgary, Alberta, is the preparation of the material required for an application to the National Energy Board and other regulatory authorities to construct an oil pipe line from the Beaufort Sea—Mackenzie Delta area to Edmonton. Preparation of the required material is underway. The company's share of the 1975 cost was $354,000 and it is estimated a further $1 million will be required in 1976.



River crossing on Montreal Extension.

Financial Review

The Consolidated Financial Statements and the Notes appearing on Pages 14 through 21 include the accounts of Interprovincial Pipe Line Limited and its subsidiaries, all of which are wholly-owned. These are Lakehead Pipe Line Company, Inc., which owns and operates the portion of the pipe line system in the United States and its subsidiary, Pipe Line Service Company Inc., which owns and operates the aircraft and radio communication system in the United States.

Income and Expenses

Deliveries in 1975 declined 11% from the previous year. However, transportation revenue was 1% higher at $195 million as a result of the tariff increases made in September 1974 and April 1975. The 25% reduction in deliveries to the United States, due to export controls, was largely responsible for the lower deliveries. Other income at $2.3 million was $200,000 higher than in 1974 largely because of increased profit on reacquisition of long term debt to meet sinking fund payments.

As a result of lower throughputs, power and fuel costs were 13% less than in 1974, in spite of unit power cost increases averaging 9% in Canada and 19% in the United States. Other operating expenses were $1.5 million lower due to less main line retesting, reduced oil losses and lower pumping equipment repairs. These more than offset increased salaries and benefits of $2.3 million.

Property and other taxes increased $1.4 million in 1975, most of which was attributable to increased mill rates. Depreciation was $800,000 higher as a result of the $31 million construction program carried out in 1974. Interest on long term debt declined by $1.5 million as a result of retirement of bank loans and debentures. In 1975 the 10% Canadian Corporate Surtax which terminated on April 30, cost $500,000 or 2¢ per share.

Earnings and Dividends

Earnings for the year were $38.9 million—an increase of $3.3 million or 9% over 1974. Earnings per share were $1.52 compared with $1.39 in the previous year.

Dividends of $1.20 per share totalled $30.7 million and represented 79% of 1975 earnings. The quarterly dividend rate of 30¢ per share remained the same as in the previous year.

New Financing

To provide funds for the Montreal Extension, on July 15, 1975 Interprovincial sold $25 million 9¼% Serial Debentures Series D to mature $5 million annually July 15, 1977 to July 15, 1981 at par and $75 million 10⅜% Sinking Fund Debentures Series D to mature July 15, 1996 at $99.50.

Further financing for the Montreal Extension was undertaken on February 2, 1976

Protective wrapping to 30'' pipe.

Concrete coating for water crossing near Toronto.

when Interprovincial sold $25 million 9⅞% Serial Debentures Series E to mature $5 million annually February 1, 1977 to February 1, 1981 at par and $75 million 10⅞% Sinking Fund Debentures Series E to mature February 1, 1996 at par.

Tariffs

Interprovincial and Lakehead are engaged exclusively in the transportation of crude oil, natural gas liquids and refined petroleum products by pipe line at established tariffs. Effective April 1, 1975, Lakehead increased its tariffs by up to 4.5¢ per barrel and Interprovincial increased its portion of joint tariffs to Toronto by 2¢ per barrel and to Buffalo by 2.5¢ per barrel. Allowance oil was also reintroduced at the rate of 1/10th of 1% of all receipts.

The present rates from the two main receiving points to the principal delivery points are as follows:

	Rates for light crudes Cents per barrel From	
To	Edmonton	Cromer
Regina	18.7¢	— ¢
Gretna	27.8	10.3
Clearbrook	33.5	20.0
Superior	39.5	26.0
Chicago	52.0	38.5
Sarnia	55.0	41.5
Toronto area	60.0	46.5
Buffalo	63.0	49.5

The rates for heavier crudes, natural gas liquids and refined products are slightly higher.

Operations

The total volumes of crude oil and other liquid hydrocarbons received and delivered by the pipe line system during the year were as follows:

Receipts—by location (thousands of barrels per day)	1975	1974
Alberta	924.1	1,059.7
Saskatchewan	148.1	193.0
Manitoba	12.2	13.2
Ontario	1.6	0.8
United States	76.4	42.2
	1,162.4	1,308.9

Deliveries—by location (thousands of barrels per day)	1975	1974
Canada		
Western Canada	137.4	155.8
Ontario	510.2	524.8
	647.6	680.6
United States		
Canadian Oil		
Minnesota-Wisconsin	166.3	169.4
Illinois-Indiana	81.8	164.4
Michigan-Ohio	116.6	156.1
New York-Pennsylvania	71.6	95.7
	436.3	585.6
U.S. Domestic and Offshore Oil		
Michigan-Ohio	24.7	9.0
New York-Pennsylvania	51.6	31.9
	76.3	40.9
	1,160.2	1,307.1

Deliveries—by type (thousands of barrels per day)	1975	1974
CRUDE OIL		
Conventional	946.3	1,111.0
Oil Sands	37.1	41.3
NATURAL GAS LIQUIDS		
Condensate	83.1	77.2
Propane/butane/condensate mix	59.0	50.7
REFINED PRODUCTS	34.7	26.9
	1,160.2	1,307.1

Blasting rock for ditch near Trent Canal.

Construction

1975 Review

Construction of the 520-mile 30-inch extension to the pipe line system from Sarnia to Montreal began in September using seven main-line construction spreads. The four spreads between Sarnia and Port Hope, Ontario made good progress and by year-end had essentially completed the first 268 miles of pipe line. Hydrostatic testing, creek and river-bank repairs and clean-up still remain to be completed in 1976. The three spreads operating in eastern Ontario and Quebec did not do as well due largely to extremely wet weather conditions and construction had to be suspended until the ground was frozen. By the end of December only 93 miles had been completed. Construction resumed in early January 1976 and it is expected that in spite of winter conditions the line will be in operation by May 1, 1976.

Construction of the five pumping stations is on schedule and two should be operable by May 1 giving a light crude capacity of 200,000 b/d. Completion of the other three stations later in the year will increase the light crude capacity to the planned 350,000 b/d. The cost of the extension is now estimated at $200 million but with the delays and winter construction, the ultimate cost may be somewhat higher. Of this amount $6 million was expended in 1974 and $139 million in 1975.

Capital expenditures for the year, including the above $139 million, totalled $151 million. The other principal items were the 20-inch crossings of the Welland Canal, the Welland River and the intervening 3 miles; and the additional 21 electric pumping units totalling 46,250 horsepower on the 30-inch line between Chicago and Sarnia started in 1974. Some of the piping and booster pump changes at tank farms in the system were deferred as circumstances permitted.

1976 Forecast

Capital expenditures in 1976 are currently estimated at $85 million, including $55 million on the Sarnia to Montreal extension. The principal project will be the installation of 69 miles of 30-inch loops, together with four additional electric pumping units totalling 10,000 horsepower, on the Chicago to Sarnia portion of the system at an estimated cost of $26 million. This addition will increase the capacity of that section of the system by 125,000 b/d to 740,000 b/d.

Six 20-year old 2,000 horsepower diesel pumping units, three each at Viking, Minnesota and Saxon, Wisconsin, will be replaced with electric pumping units at an estimated cost of $1.5 million.

Two existing 2,500 horsepower electric pumping units operating on Line 3, will be re-installed on Line 1 (20-inch) at Milden and Craik, Saskatchewan to increase the capacity of this line to meet increasing volumes of natural gas liquids and refined products.

Ontario Hydro right-of-way north of Toronto.

Construction of the refined products terminal at Superior, Wisconsin is still delayed pending review by governmental agencies of the U.S. Army Corps of Engineers Environmental Impact Statement issued in January 1976. These review procedures should be completed and the findings known by the fall of 1976.

Likewise upgrading of Line No. 2 between Edmonton and Superior (24 and 26-inch) to accommodate natural gas liquids now transported in Line 1 continues to be deferred pending release of the Regulations respecting Oil Pipe Lines presently being formulated by the National Energy Board. Once these regulations are issued the economic feasibility of this project will be reappraised.

The proposed 16-inch line from a point on the Buffalo extension downstream from Westover to serve the new 95,000 b/d refinery presently being constructed at Nanticoke, Ontario is presently scheduled for construction in early 1977. Arrangements are being made to locate most of the line in existing Ontario Hydro rights-of-way. The estimated cost of this 27 mile line is $4.9 million. Installation of three 2,000 horsepower electric pumping units at Westover— deferred from 1975—will probably commence in late 1976.

General

At the Annual Meeting on April 9, 1975, Robert K. Heule, Vice-President and General Manager of the company, was elected to the Board of Directors replacing Ralph D. Parker, who did not stand for re-election. Mr. Jerry A. Cogan resigned from the Board in August upon his retirement from Imperial Oil Limited and was succeeded by J. Warren Flanagan, a Senior Vice-President and Director of the same company. Mr. Cogan joined the Board in 1966 and always played an active role in its deliberations. His advice and counsel were very much appreciated.

The directors and management once again welcome this opportunity of complimenting and thanking all employees for the high level of performance maintained throughout the year.

On behalf of the Board of Directors

President

Land Restoration Project

There is nothing attractive about an oil spill but unfortunately they do occur every once in a while. Extensive precautions are taken to minimize the risk but occasionally oil does escape from a pipe line. When this happens the immediate emphasis is directed at containment and recovery of the oil and subsequently towards the restoration of the affected land. In continuing pursuit of how best to restore agricultural land, the company has initiated a research program under the direction of Dr. F. D. Cook of the Department of Soil Science at the University of Alberta.

Dr. Cook is one of a group of soil scientists at the University who, for several years, has been carrying out studies on the effects of oil spills on the environment. In the case of farm lands, the approach of this research program is based on the premise that all soils contain varying quantities of micro-organisms (bacteria and fungi) which, in effect, are capable of "eating" the oil. The more micro-organisms present in the soil the more quickly restoration occurs. Therefore the objective is to increase the number and hence the activity of the organisms by cultivation and fertilization. Other factors affecting the restoration period include the original nutrient levels of the soil, climatic conditions and the degree of contamination.

Research was conducted on 40 acres of farmland near Killam, Alberta. At this site early in 1974, oil from a leak ran onto a grain field. Although most of the oil was recovered, some 10 acres of arable land was affected. High water in the spring spread the oil over a greater area than normal.

A plan was developed whereby strips of the affected area would be given varying treatments of cultivation and fertilization. Results of the experiment show that where proper cultivation and fertilization were carried out, better than average growth and yield were obtained. It confirms the encouraging findings of the University of Alberta soil scientists who contend that crude oil spills on agricultural land need not be disastrous to crop growth and certain types of soil can be returned to productive use much more rapidly than previously believed.

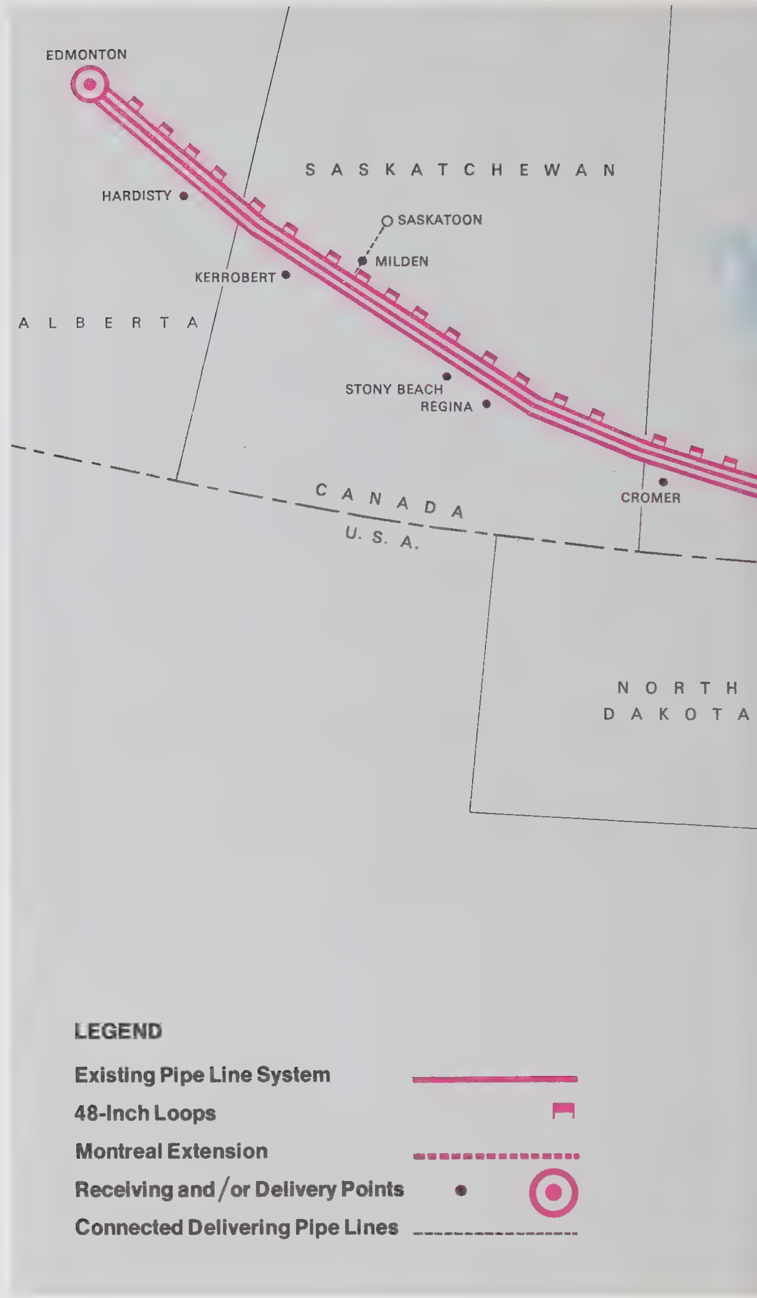
Although Interprovincial's continuing emphasis is aimed at avoiding oil spills, the current research is an encouraging step forward in restoring land when spills do occur.

Top: View of oil spill several weeks after the leak, Spring of 1974.

Bottom: Dr. Cook in foreground standing ankle deep in non-fertilized control area. A. J. Sirois company District Superintendent standing knee deep in fertilized oats.

Oats from various controlled sections of the oil spill area.

INTERPROVINCIAL PIPE LINE LIMITED
and its United States Subsidiary
LAKEHEAD PIPE LINE COMPANY, INC.

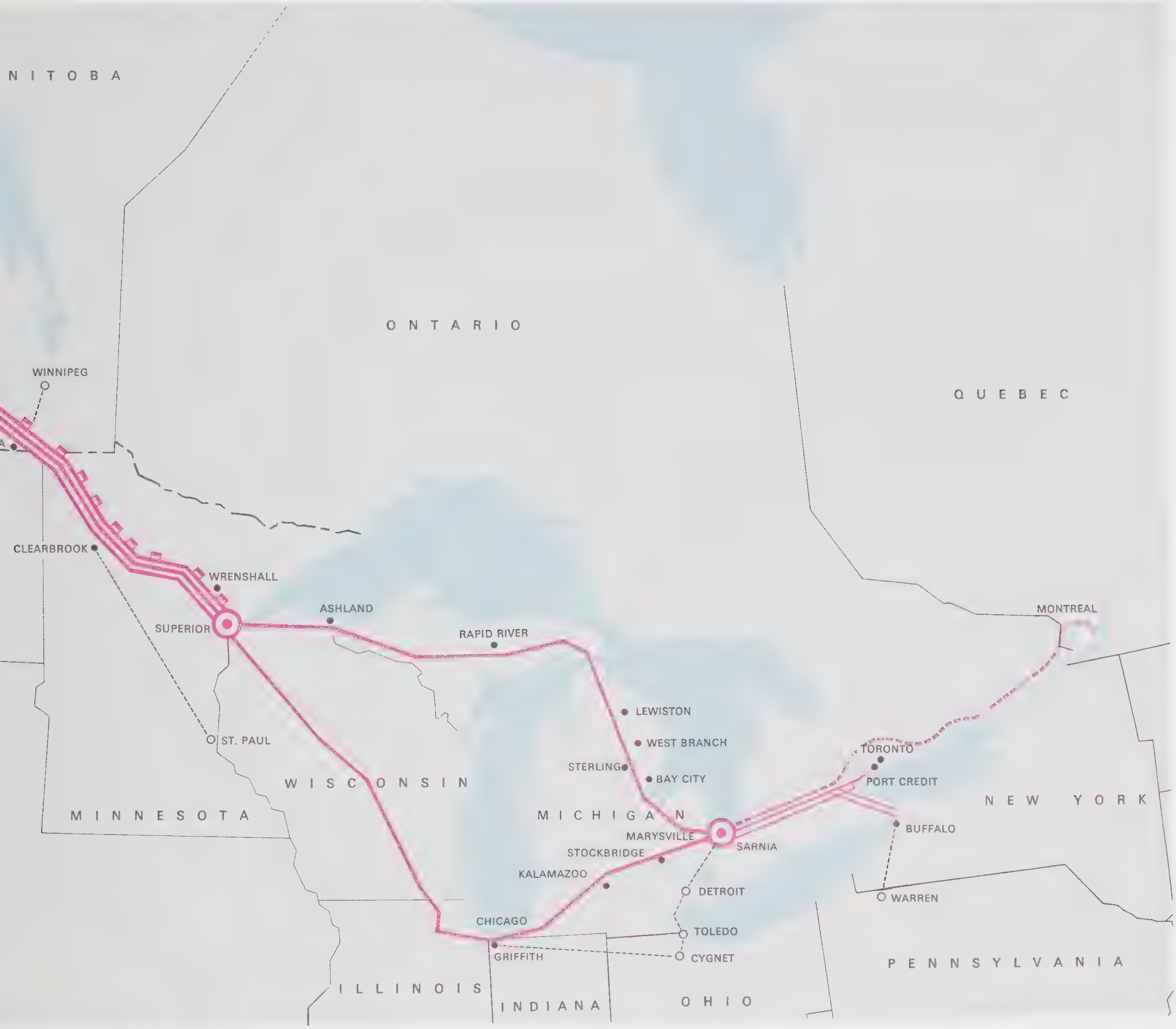


Annual Average Physical Capacity

Line Section	Thousands of Barrels per Day 1976	1977
Edmonton-Regina - -	1,513	1,533
Regina-Cromer - - -	1,466	1,466
Cromer-Superior - - -	1,555	1,555
Superior-Sarnia via Straits of Mackinac -	450	450
Superior-Chicago - -	855	855
Chicago-Sarnia - - -	615	740
Sarnia-Port Credit - -	470	470
Westover-Buffalo - -	160	160
Sarnia-Montreal - -		350
during 2nd quarter -	200	
during 3rd quarter - -	350	

The Pipe Line Transportation System
as at December 31, 1975
(excluding Montreal extension)

	Canada	United States	Total
Miles of Right-of-Way - - - - - - - - -	1,004	1,739	2,743
Number of Pumping Stations - - - - -	29	42	71
Installed Horsepower—diesel - - - - -	37,920	96,335	134,255
—electric - - - -	485,630	390,500	876,130
—total - - - - -	523,550	486,835	1,010,385
Line Fill in Barrels (provided by shippers) -	11,414,000	11,611,000	23,025,000
Separate Streams Transported - - - - -			47



Miles of Main Line Pipe

Size	Canada	United States	Total
12 inch - -	66	26	92
16 - - - -	397	—	397
18 - - - -	39	325	364
20 - - - -	800	12	812
24 - - - -	772	—	772
26 - - - -	2	325	327
30 - - - -	14	920	934
34 - - - -	774	789	1,563
48 - - - -	224	106	330
Total Miles of Main Line Pipe - -	3,088	2,503	5,591

Tankage: (thousands of barrels)

	Number of tanks	Capacity
Edmonton - - - - -	27	4,645
Stony Beach - - - -	3	66
Regina - - - - - -	8	580
Cromer - - - - - -	14	1,006
Gretna - - - - - -	5	280
Clearbrook - - - -	7	474
Superior - - - - -	22	4,584
Griffith - - - - -	8	1,985
Sarnia - - - - - -	12	1,650
Westover - - - - -	4	376
	110	15,646

Consolidated Statement of Earnings

(in thousands of dollars except per share amounts)

	Year ended December 31 1975	Year ended December 31 1974
Income:		
Transportation revenue	**$194,715**	$192,944
Other income	**2,300**	2,074
	197,015	195,018
Expenses: (Note 1)		
Operating—power and fuel	**27,550**	31,603
—other	**26,376**	27,870
Property and other taxes	**12,588**	11,218
Provision for depreciation	**24,889**	24,044
Interest on long term debt	**23,273**	24,724
Foreign exchange	**115**	(593)
	114,791	118,866
Earnings before income taxes	**82,224**	76,152
Provision for income taxes: (Note 1)		
Current	**28,723**	31,302
Deferred	**14,572**	9,822
Deferred investment tax credits	**28**	(557)
	43,323	40,567
Earnings for the year	**$ 38,901**	$ 35,585
Earnings per share (Note 1)	**$ 1.52**	$ 1.39

Consolidated Statement of Retained Earnings

(in thousands of dollars except per share amounts)

	Year ended December 31 1975	Year ended December 31 1974
Balance at beginning of year	**$128,153**	$123,256
Earnings for the year	**38,901**	35,585
	167,054	158,841
Dividends paid—($1.20 per share) (Note 5)	**30,688**	30,688
Balance at end of year	**$136,366**	$128,153

Consolidated Statement of Changes in Financial Position

(in thousands of dollars)

	Year ended December 31 1975	1974
Source of Funds:		
Earnings for the year	**$ 38,901**	$ 35,585
Add—Charges (credits) to earnings not affecting working capital:		
Depreciation	**24,889**	24,044
Deferred income taxes	**14,572**	9,822
Deferred investment tax credits	**28**	(557)
Other	**469**	299
Provided from operations	**78,859**	69,193
Long term debt:		
Interprovincial Pipe Line Limited		
Bank loans	**23,500**	2,800
Debentures	**100,000**	—
Other transactions	**301**	112
	202,660	72,105
Use of Funds:		
Dividends	**30,688**	30,688
Additions to pipe line transportation system	**151,202**	31,192
Long term debt retired or included in current liabilities	**23,466**	22,120
Deposits for acquisition of rights-of-way	**1,449**	—
Cost of issuing long term debt	**1,735**	—
	208,540	84,000
Change in Working Capital	**(5,880)**	(11,895)
Working Capital (Deficit) at Beginning of Year	**(16,695)**	(4,800)
Working Capital (Deficit) at End of Year	**$(22,575)**	$(16,695)

Consolidated Balance Sheet

(in thousands of dollars)

ASSETS

	December 31 1975	December 31 1974
Current Assets:		
Cash	**$ 903**	$ 392
Term deposits with Canadian chartered banks	**984**	—
Short term investments, at cost which is equivalent to market	**14,999**	3,407
Accounts receivable—		
Transportation charges	**18,335**	18,345
Other	**1,381**	552
Inventories—		
Crude oil, at quoted market price	**761**	—
Materials and supplies, at cost	**5,336**	4,274
Prepaid expenses	**841**	678
	43,540	27,648
Deferred Charges and Other Assets:		
Unamortized discount and expense on long term debt (Note 1)	**5,012**	3,651
Deposits for acquisition of rights-of-way	**1,449**	—
Other	**542**	590
	7,003	4,241
Pipe Line Transportation System, at cost		
(Notes 1 and 2)	**978,725**	828,725
Less—Accumulated depreciation	**267,427**	243,392
	711,298	585,333
	$761,841	$617,222

The financial statements have been approved by the Board:

W. H. REA, *Director*

D. G. WALDON, *Director*

LIABILITIES

	December 31 1975	1974
Current Liabilities: (Note 3)		
Accounts payable	**$ 27,709**	$ 8,994
Interest accrued	**8,332**	4,113
Income and other taxes	**15,750**	11,730
Current portion of long term debt	**14,324**	19,506
	66,115	44,343
Long Term Debt (Note 3)	**396,588**	296,554
Deferred Income Taxes (Note 1)	**103,943**	89,371
Deferred Investment Tax Credits (Note 1)	**10,959**	10,931

SHAREHOLDERS' EQUITY

	1975	1974
Capital Stock: (Note 4)		
Authorized—$100,000,000 divided into 100,000,000 shares, par value $1 each		
Issued—25,573,335 shares	**25,573**	25,573
Contributed Surplus—premium on shares	**22,297**	22,297
Retained Earnings (Notes 1 and 5)	**136,366**	128,153
	184,236	176,023
	$761,841	$617,222

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

Principles of Consolidation

The consolidated financial statements include the accounts of Interprovincial Pipe Line Limited and its wholly-owned subsidiaries. These are Interprovincial Pipe Line Patrol Company Limited in Canada and Lakehead Pipe Line Company, Inc., and its subsidiary, Pipe Line Service Company, Inc. in the United States.

Earnings of Lakehead are subject to a 15% U.S. withholding tax when paid as dividends to Interprovincial. It has not been considered necessary to provide for this tax on retained earnings of $52,689,000 U.S. of Lakehead at December 31, 1975 because they have been reinvested in that company.

Foreign Exchange

United States dollar amounts have been translated into Canadian dollars on the following bases:

Current assets and liabilities—at the rate of exchange December 31;

Other assets and liabilities—at historical rates of exchange except for accumulated depreciation which is translated on the basis of equivalent Canadian dollar cost of the related fixed assets;

Income and expenses—at monthly rates of exchange except provision for depreciation which is translated on the same basis as the related fixed assets.

Net gains or losses arising from the foregoing methods are shown on the Consolidated Statement of Earnings as Foreign exchange.

Discount and Expense on Long Term Debt

The balance of unamortized discount and expense is being amortized on the straight-line method over the life of the debt with adjustments as debt is retired. Amortization charged to earnings amounted to $330,000 in 1975 and $248,000 in 1974.

Pipe Line Transportation System and Depreciation

Expenditures for system expansion and major renewals and betterments are capitalized whereas maintenance and repair costs are charged to operating expenses as incurred.

The companies capitalize interest during the construction period on funds borrowed for additions to the pipe line transportation system. This amounted to $4,627,000 in 1975. No interest was capitalized in 1974.

The companies provide for depreciation of fixed assets on the straight-line method at annual rates which will amortize the cost of depreciable properties over their estimated service lives after taking into account possible salvage values. The rate of depreciation on the pipe line transportation system averages approximately 3%.

When fixed assets are retired or otherwise disposed of, the cost and accumulated depreciation are cleared from the related accounts and any resultant profit or loss is credited or charged to accumulated depreciation, except for extraordinary disposals for which the profit or loss is included in earnings.

Deferred Income Taxes

Under Canadian and United States income tax regulations depreciation deducted for tax purposes may differ from the amount recorded in the accounts; also, during construction periods interest capitalized and, in the United States, sales taxes capitalized, may be claimed for tax purposes in the year incurred. The companies are using the maximum deductions permitted for tax purposes which result in deferment of taxes to future years when amounts deductible will be less than the depreciation recorded in the accounts.

Deferred Investment Tax Credits

The United States subsidiary companies are allowed credits against income taxes payable of a specified percentage of the cost of most depreciable assets acquired and placed into service. These credits have been deferred and are being taken into earnings over the life of the related assets.

Earnings per Share

Earnings per share are computed on the weighted average number of shares outstanding during the year. There would be no material dilution of earnings per share if the share purchase warrants and stock options had been exercised during the year.

Pension Plans

Interprovincial and Lakehead have pension plans which cover substantially all employees. The principal amount of the unfunded liability for past service benefits, including experience deficiencies, was approximately $8,400,000 at December 31, 1974. This amount, together with interest, will be charged to earnings in varying annual installments to 1994. The companies fund accrued pension costs. In the years 1975 and 1974 total costs of the plans amounted to $1,857,000 and $1,169,000 respectively, of which $872,000 and $416,000 respectively, were applicable to past service benefits. Pension fund assets exceed the actuarially computed value of the vested portion of the benefits.

2. Pipe Line Transportation System: Accumulated Depreciation:

The pipe line transportation system and accumulated depreciation by major classes were as follows:

	Investment, at cost	Accumulated depreciation	Net investment December 31	
	December 31, 1975		1975	1974
	(in thousands of dollars)			
Land - - - - - - - - -	$ 2,375		$ 2,375	$ 2,352
Rights-of-way - - - - -	13,677	$ 4,181	9,496	9,783
Pipe line - - - - - - - -	569,326	197,027	372,299	386,810
Pumping equipment, buildings and tanks - -	229,518	66,219	163,299	156,514
Construction in progress -	163,829	—	163,829	29,874
	$978,725	$267,427	$711,298	$585,333

Interprovincial is constructing a 520-mile, 30-inch pipe line extension from Sarnia to Montreal which is expected to be in operation in May 1976. The cost of the extension is estimated at $200,000,000 of which costs amounting to $144,915,000 have been incurred to December 31,1975 and are included in Construction in progress. The project will be financed entirely by issuance of the company's debentures including the $100,000,000 Series D Debentures issued on July 15, 1975 and the $100,000,000 Series E Debentures issued on February 2, 1976 (Note 3).

On April 8, 1975 Interprovincial entered into a Deficiency Agreement with the Canadian Government whereby the Government will pay the deficiency if operating revenue in respect to the extension is not sufficient to meet the fixed and variable costs of the extension. The Agreement provides for the granting to the Government of an option to purchase the extension at its net book value plus related expenses but this option is exercisable only if a deficiency payment has been made or it is agreed that a deficiency will occur.

It is estimated that 1976 capital expenditures, excluding the Montreal Extension, will amount to approximately $30,000,000 and will be financed by funds generated within the companies.

3. Long Term Debt:

As part of the decision to proceed with construction of the Montreal Extension it was decided that all related interim financing bank borrowings would be repaid with proceeds of new long term debt financing. Accordingly, bank notes payable of $2,800,000 previously included as current liabilities in the financial statements at December 31, 1974 were reclassified to Long Term Debt. This loan was repaid July 15, 1975 from proceeds of the Series D Debentures.

Long Term Debt (excluding current portion) outstanding at December 31, was as follows (in thousands of dollars):

	1975	1974
Interprovincial Pipe Line Limited—		
First Mortgage and Collateral Trust Bonds—		
Series E—5½% due April 1, 1985	$ 8,230	$ 8,756
Sinking Fund Debentures (unsecured)—		
Series A—6% due November 1, 1986	25,200	26,600
B—9⅜% due December 1, 1990	55,200	57,600
C—8⅛% due May 1, 1993	50,000	50,000
D—10⅜% due July 15, 1996	75,000	—
Serial Debentures (unsecured)—		
Series D—9¼% $5,000 due annually July 15, 1977-1981	25,000	—
Bank Loans (unsecured)—		
Repayable in 1976; interest at ¾% above prime rate, maximum charge 8½%	—	10,000
Interim financing—repaid July 15, 1975	—	2,800
—repaid February 2, 1976	23,500	—
Lakehead Pipe Line Company, Inc.—		
Sinking Fund Debentures (guaranteed by Interprovincial)		
Series A—6½% due August 1, 1992 (1975—$26,700 U.S.; 1974—$28,350 U.S.)	28,745	30,522
B—7⅛% due April 15, 1993 (1975—$70,762 U.S.; 1974—$75,000 U.S.)	76,191	80,754
C—7.60% due June 15, 1997 ($30,000 U.S.)	29,522	29,522
	$396,588	$296,554

On February 2, 1976, to finance in part the Montreal Extension, Interprovincial issued $25,000,000 9⅞% Serial Debentures, Series E to mature $5,000,000 annually February 1, 1977—1981 inclusive and $75,000,000 10⅞% Sinking Fund Debentures, Series E to mature February 1, 1996. On the same date interim financing bank loans amounting to $38,900,000 (including $23,500,000 outstanding at December 31, 1975) were repaid from the net proceeds of this issue.

The First Mortgage and Collateral Trust Bonds of Interprovincial are secured by charges on all its assets; no further Bonds may be issued.

Principal repayments required on Long Term Debt for the years 1977 through 1980 are $17,658,000, $17,699,000, $17,849,000 and $19,472,000 respectively.

Long Term Debt payable in U.S. currency translated at historical rates of exchange amounts to $134,458,000. At the December 31, 1975 rate of exchange this debt would be $129,552,000.

4. Capital Stock:

At December 31, 1975 share purchase warrants were outstanding which entitled the holders to purchase 818,050 shares of capital stock of the company for $17 per share on or before November 1, 1976. No warrants were exercised during 1975.

Under the Employee Incentive Stock Option Plan options may be granted to full-time employees to purchase shares of capital stock at not less than 90% of market value of the shares on the day that an option is granted. During 1975 no options were granted or exercised and options for 3,000 shares were terminated under the terms of the plan. At December 31, 1975 options were outstanding on a total of 114,525 shares at prices ranging from $17 to $25.80 per share exercisable over varying periods up to 1981.

Outstanding options include 25,500 shares to officers, including the two directors who are full-time employees. At year end 55,500 shares were available for future grants.

5. Canadian Anti-Inflation Legislation:

Interprovincial is listed on a Canadian stock exchange. Thus, in accordance with Regulations under the Anti-Inflation Act its dividends during the first compliance period—October 14, 1975 to October 13, 1976 inclusive—may not exceed $1.20 per share. Permissible dividends in subsequent compliance periods will be determined by regulations which have not yet been issued.

6. Remuneration of Directors and Officers:

In 1975 aggregate remuneration of eleven directors, two of whom were not paid as directors, was $44,000. Aggregate remuneration of five officers, only four of whom were paid as officers, was $232,000. Three officers were also directors. None of the directors or officers received remuneration from any of the company's subsidiaries.

Auditors' Report

To the Shareholders of
INTERPROVINCIAL PIPE LINE LIMITED:

We have examined the consolidated balance sheet of Interprovincial Pipe Line Limited and subsidiary companies as at December 31, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta
February 5, 1976

PRICE WATERHOUSE & CO.
Chartered Accountants

Interprovincial Pipe Line Limited
and subsidiary companies

Ten Year Review

Financial (in thousands of dollars except per share amounts)	1975
Income—Transportation revenue	$ 194,715
—Other income	$ 2,300
Expenses—Operating—power and fuel	$ 27,550
—other	$ 26,491
—Property and other taxes	$ 12,588
—Depreciation	$ 24,889
—Interest	$ 23,273
Income taxes	$ 43,323
Earnings	$ 38,901
per share, weighted average	$ 1.52
Dividends paid	$ 30,688
per share	$ 1.20
percentage of earnings	79%
Working capital (deficit)	$ (22,575)
Funds provided from operations	$ 78,859
Additions to pipe line system	$ 151,202
Investment in pipe line system (cost)	$ 978,725
Long term debt	$ 396,588
Statistical	
Shares outstanding at year end (thousands)	25,573
Percentage of shares registered in Canada	95%
Shareholders at year end	21,010
Number of employees at year end	755
Investment in pipe line system, per employee	$1,296,000
Receipts (b/d)—Alberta	924,151
—Saskatchewan	148,053
—Manitoba	12,215
—Ontario	1,596
—United States	76,393
	1,162,408
Deliveries (b/d)	
Canada—Western Canada	137,479
—Ontario	510,167
	647,646
United States—Minnesota-Wisconsin	166,274
—Illinois-Indiana	81,782
—Michigan-Ohio	141,311
—New York-Pennsylvania	123,185
	512,552
	1,160,198
Barrel miles (millions)	581,850
Average mileage per barrel delivered	1,374
Average transportation revenue—per barrel	46.0¢
—per 100 barrel miles	3.35¢

1974	1973	1972	1971	1970	1969	1968	1967	1966
192,944	202,831	164,207	144,393	133,707	114,465	105,532	92,893	87,787
2,074	2,461	1,689	2,871	1,643	994	1,049	1,548	1,219
31,603	30,699	18,735	13,213	11,186	11,053	12,514	9,432	7,930
27,277	22,075	18,088	17,176	16,164	14,841	13,282	13,271	11,757
11,218	8,415	9,612	8,814	9,643	8,338	5,789	4,636	4,292
24,044	21,803	19,674	18,115	17,519	16,070	13,677	12,683	12,346
24,724	21,481	19,010	18,890	18,810	13,898	8,608	5,697	4,274
40,567	53,034	40,693	35,416	32,531	26,833	29,377	26,197	25,884
35,585	47,785	40,084	35,640	29,497	24,426	23,334	22,525	22,523
1.39	1.87	1.57	1.40	1.16	0.96	0.92	0.89	0.89
30,688	28,127	23,976	21,892	20,352	18,316	18,316	18,315	18,314
1.20	1.10	0.94	0.86	0.80	0.72	0.72	0.72	0.72
86%	59%	60%	61%	69%	75%	78%	81%	81%
(16,695)	(4,800)	(707)	(818)	31,848	(10,490)	(14,122)	(10,277)	24,409
69,193	84,230	70,510	61,719	52,825	49,137	45,864	39,053	35,286
31,192	94,056	66,022	44,783	17,795	70,595	114,189	76,721	4,513
828,725	801,416	708,688	646,172	602,312	587,340	518,799	405,657	334,507
296,554	315,874	282,142	264,279	292,829	265,184	223,470	141,191	119,087
25,573	25,573	25,527	25,476	25,443	25,439	25,439	25,439	25,436
94%	94%	94%	93%	93%	92%	91%	90%	89%
20,423	19,621	18,864	19,576	21,066	21,996	21,486	18,321	16,290
751	730	706	677	641	603	562	621	599
103,000	1,098,000	1,004,000	954,000	940,000	974,000	923,000	653,000	558,000
059,695	1,134,985	877,474	743,411	659,382	542,093	475,437	386,331	340,263
192,951	217,423	217,768	217,034	224,890	225,755	236,613	239,466	245,435
13,193	14,216	14,931	15,575	16,452	17,489	17,524	15,863	14,812
842	4,134	3,196	2,751	817	550	205	—	—
42,241	11,123	8,440	3,228	2,579	—	—	3,502	6,836
308,922	1,381,881	1,121,809	981,999	904,120	785,887	729,779	645,162	607,346
155,755	147,033	115,939	116,163	116,386	111,504	106,832	107,050	106,817
524,805	467,893	414,305	390,798	380,570	351,270	338,624	317,969	320,145
680,560	614,926	530,244	506,961	496,956	462,774	445,456	425,019	426,962
169,435	195,467	175,534	159,142	142,686	135,451	116,196	97,371	94,054
164,324	229,302	145,397	89,309	49,836	—	—	—	—
165,119	200,978	142,973	120,098	121,822	105,540	96,847	60,344	44,159
127,639	136,742	121,365	101,840	89,619	72,206	58,228	54,556	39,769
626,517	762,489	585,269	470,389	403,963	313,197	271,271	212,271	177,982
307,077	1,377,415	1,115,513	977,350	900,919	775,971	716,727	637,290	604,944
668,864	707,037	573,456	488,862	444,318	366,287	337,978	289,691	267,354
1,402	1,406	1,405	1,370	1,351	1,293	1,288	1,245	1,211
40.4¢	40.3¢	40.2¢	40.5¢	40.7¢	40.4¢	40.2¢	39.9¢	39.8¢
2.88¢	2.87¢	2.86¢	2.95¢	3.01¢	3.13¢	3.12¢	3.21¢	3.28¢

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Chemical Bank, New York

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